



# Midyear Budget Review: Save More and Spend Wisely

Posted by [Pierluigi Oliverio](#) on Monday, October 22, 2007

## City Hall Diary

This past Tuesday, the City of San Jose discussed its midyear point, which is where we consider how we should spend or not spend any “extra” money that was not part of the regular budget proposal. This year approximately \$13 million is up for discussion.

Cities have some accuracy in forecasting budgets, but there is always an unpredictable deficit or overage. The final budget dollars are predicated (as best as they can be) on economic actions outside of City Hall. For example, San Jose’s coffers are fed when consumers buy “stuff” at Santana Row, Eastridge, Valley Fair, Oakridge, etc., by creating sales tax. In addition, developers building a housing development will generate construction and conveyance tax. However, a slowdown in the housing market will affect real estate transactions and a slowdown in our spending habits will limit the amount of tax the city receives.

This midyear money (\$13 million) could be spent on anything, including police, parks, etc. Having extra money at a midyear point is positive, since there is always the risk that it could be the other way around. The city’s economic uncertainty reserve fund has shrunk from \$15 million to \$4 million over the last few years.

The reason we have \$13 million extra is due to the spending cuts which closed the gap on the \$16 million deficit for 2007-2008. Also, the city has kept most of its open positions frozen by not hiring anyone.

Unfortunately, San Jose is forecasted to have an even larger \$25 million deficit for its next fiscal year (2008-2009), so the need to watch our spending is still a major concern. In June 2007, we passed a balanced budget and also made a policy to use any extra funds we had midyear in a limited manner to correct errors and reflect updated cost information, and then split the funds 50-50 between street maintenance and future deficit reserve.

Many neighborhood roads are in disrepair and saving money is a wise thing to do; therefore, I support the 50-50 split between roads and reserve funds. Street maintenance and saving money may not deliver a new capital project, but we have to make choices that serve the long-term goals that are best for the whole city, not just individual districts.

I believe our personal upbringing can influence the way we decide to spend or save money. My parents (who grew up during the depression, own their home outright and have paid over \$100, 000 for personal medical bills, all on teachers' salaries) taught me to save money, live below my means and to try to make more money overall. As an adult, I saved to buy a home, drive used cars and have kept weekend employment, even though I was fully employed during the regular work week.

I think the city should do the same by putting money aside in reserves, being prudent in money spent (which includes community-based budget reviews) and allowing land use policies for new retail opportunities in San Jose to capture more sales tax.

Related to this, the city council last week also passed the San Jose Retail Strategy to allow for more areas to construct retail shopping. San Jose as a city has sales tax leakage of 24 percent, based on a Bay Area Economics (BAE) study in 2004. If San Jose were able to cut that leakage in half, where San Jose residents purchased products in San Jose versus neighboring cities, we would add approximately \$12 million to city coffers or roughly half of next year's budget deficit.

Also, based upon the methodology developed by BAE, if our city grows in population as per the Association of Bay Area Governments (ABAG) 2005 Report, and assuming our sales grow at the rate they have over that last five years, our leakage would increase to 41 percent by 2015.

As San Jose continues to grow, we must be fiscally prudent and prepared. Saving money and balancing budgets should be commonplace. We all know that there is "that one project" that just needs "a couple million." However, if we don't commit to saving and spending money on prudent citywide necessities (like public safety officers), then our city will never get out of the rut it's in.

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